GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4868
ANSWERED ON:16.12.2016
Corporate Bond Index
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to develop corporate bond index and easier norms for Foreign Portfolio Investment;

(b) if so, the details thereof;

(c) whether the Government proposes to make it mandatory for large companies to tap corporate debt market for funds; and

(d) if so, the details thereof?

Answer

The Minister of State for Finance
(a) & (b) Securities and Exchange Board of India (SEBI) vide circular dated April 04, 2008, advised stock exchanges to construct a Bond Index and disseminate the same. Exchanges have been given freedom to decide on the model for computation of Bond Index.

Bombay Stock Exchange (BSE) has several corporate bond indices which are broadly categorized as S & P BSE India Corporate bond index with 4 sub-indices namely S & P BSE India Financials Bond Index, S & P BSE India Services Bond Index, S & P BSE India Utilities Bond Index and S & P BSE India Industrials Bond Index.

As regards the easier norms for Foreign Portfolio Investment, the major steps taken by SEBI are placed at Annexure-A.

(c) & (d) In the recent years, it has been observed that one of the reasons for stress in the Indian banking system is banks' exposures to large corporates, leading to high concentration risk. Further, it is felt that absence of an overarching ceiling on total bank borrowing by a corporate entity from the banking system has resulted in banks collectively having very high exposures to some of the large corporates in India.

In order to reduce the concentration risk to the banking system, the Reserve Bank of India has put in place a set of complimentary frameworks: a) Large Exposures Framework − this framework restricts individual bank's exposures to a counterparty and group of connected counterparties at 20 percent and 25 percent of the eligible capital base respectively; b) Framework for enhancing Credit Supply for Large Borrowers through Market Mechanism − Under this framework, borrowings of specified large borrowers from the banking system beyond a threshold will invite additional capital charge and provision. Apart from reducing the concentration risk, this framework will also encourage large corporates to meet atleast some part of their funding requirements using market instruments like bonds, debentures etc.